



Statement by

Peggy Sherry

Acting Chief Financial Officer

Department of Homeland Security

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Thank you Chairwoman Watson, Ranking Member Bilbray, and members of the Committee for the opportunity to testify before you regarding the results of the Department of Homeland Security's (DHS) Fiscal Year (FY) 2008 financial statement audit.

I would like to thank Congress for enacting the Department of Homeland Security's Financial Accountability Act. With the passage of the Act, we launched an ambitious multi-year effort to build assurances for internal controls as well as executed corrective actions to improve our financial accounting and reporting. We have worked collaboratively with Congress, the Government Accountability Office, the Office of Management and Budget, the DHS Office of the Inspector General, and our Independent Auditor to ensure that we strengthen internal controls in support the Department's mission.

DHS is committed to improving financial management, continuing efforts to strengthen internal controls, and re-aligning business processes for improved efficiencies and effectiveness. Our goal is to secure the nation using resources that are both fully accounted for and effectively used.

FY 2008 Financial Statement Audit Results

For the third consecutive year, the results of the annual financial statement audit show DHS continues to make progress. When DHS was formed, we inherited 30 significant deficiencies with 18 classified as material weaknesses. These included insufficient internal controls, system security deficiencies, and incomplete policies and procedures to produce auditable financial statements.

As our independent auditors report, the Department continues to make progress implementing corrective actions and improving the quality and reliability of our financial reporting. Consider the following accomplishments:

- In FY 2006, DHS launched an ambitious multi-year effort to implement corrective actions, reducing the number of material weaknesses from 10 in FY 2006, to 7 in FY 2007, to 6 in FY 2008.

- The Secretary's Financial Reporting Assurance Statement has improved from a statement of no assurance in FY 2005 to a statement that good internal controls are in place in FY 2008. For FY 2009, the Department's goal is to provide our first ever assurance that internal controls are effectively working, with the exception of those in a few components.

The remaining audit challenges are more specific and easier to target. We continue to partner with and provide oversight to the U.S. Coast Guard, Transportation Security Administration, and Federal Emergency Management Agency to address audit disclaimer and material weakness conditions. We also continue to demonstrate progress in performance reporting. I am pleased to report that our FY 2008 Performance and Accountability Report was recently ranked by the Mercatus Center as the fourth highest in the federal government for providing useful information on the public benefit and positive outcomes DHS delivers as well as accounting for our use of tax-payers' dollars. This is particularly notable: just two years ago, DHS was ranked 21 out of 24.

Financial Management Improvement Initiatives

When our former CFO last testified before this Committee, he discussed a series of initiatives intended to build a common DHS financial management culture and achieve sustainable financial management improvement. I am pleased to update you on the substantial progress we have made in these areas.

- We are in our fourth series of the CFO Mentorship program for mid-level managers. This program helps create a pipeline of strong candidates for senior financial management leadership roles at DHS.
- We continue to ensure a common set of competencies for all DHS financial management employees. Nearly 400 employees have attended new hire training since its inception in March of 2007. They learn about the different missions within the Department; our core financial functions; and the responsibilities of all financial management employees to support strong internal controls and to enforce compliance with fiscal law.

- Last fall, we published the Financial Management Policy Manual, an online repository that provides DHS guidance for program and budget formulation, budget execution, financial management, accounting and reporting. The Manual provides standard financial management policies to be used throughout the Department, with a focus on strong internal controls that help DHS accomplish our financial management goals by preventing and detecting potential waste, fraud, and abuse.
- We have issued three editions of the Internal Control Playbook. The Playbook outlines the DHS strategy to design and implement an effective internal control system to support our mission, eliminate internal control weaknesses, and build management assurances. In addition, we established an Internal Control Management Office to ensure the internal control improvements we put in place continue to work effectively.
- We are moving forward with our plans to consolidate our financial systems. This initiative will greatly improve the quality of and control over DHS financial data, make the financial accounting process more efficient throughout DHS, and serve as the foundation for standard business and financial management practices across DHS.

Financial Systems Consolidation

Mission support requires a real-time enterprise view of DHS resources. Currently, DHS has 13 separate financial management systems each reflecting many different business processes, numerous accounting lines, and varying levels of system integration—with many still relying on manual processes—resulting in inconsistent data across the Department. Likewise, maintaining multiple systems across the Department often leads to replication and high overhead when upgrades, support services and system changes are necessary.

As we work to address our financial management challenges and increase transparency in reporting, the Transformation and System Consolidation (TASC) initiative is critical. This initiative will result in the Department acquiring a proven, integrated financial, asset, and acquisition management system. This important

initiative will, among other things, enhance mission support and improve our ability to report financial data in a timely and accurate way.

We are in the midst of conducting the TASC acquisition and will select a vendor by the second quarter of FY 2010. Once awarded, the Department will integrate and standardize its financial, procurement, and asset management processes, including establishing one DHS accounting line. DHS also has a strong program management office to provide full-time, day-to-day oversight of the project to help ensure success.

The Path Forward

We have demonstrated our commitment both to develop and execute strong, actionable plans that improve our financial management with strong internal controls. Consolidating our financial, asset, and acquisition systems will accelerate Department-wide progress in our efforts for efficiency, effectiveness, transparency, and accountability. As DHS undertakes its transformation and system consolidation effort, the Department's financial management infrastructure will become more stable and will significantly contribute to achieving the intended goals of the DHS Financial Accountability Act.

Conclusion

Financial management has come a long way at DHS. I continue to be inspired by the extraordinary efforts of our dedicated staff at Headquarters and in the Components, and I am committed to pursuing financial management success. I appreciate the support we have received from our Office of Inspector General, the GAO, this Committee, and Congress. Thank you for your leadership and your continued support of the Department of Homeland Security.